February 23, 2023

NLB Group: Another strong quarter with EUR 69.1 million of Profit after Tax contributes to record business results of in 2022. Improved guidance for 2023 and an ambitious outlook for 2025.

Despite the precarious circumstances, the shadow of war in Europe, the resulting energy crisis, and the economic slowdown, **2022 was the best year in the history of NLB Group**. The Group reached many important business milestones, and through responsible environmental and societal actions once again confirmed its **commitment and its contribution to a better quality of life in South-eastern Europe**, our home region. These actions for example include both our commitment and adoption of policies, such as United Nations Net Zero Banking Alliance or NLB Group Net Zero Strategy, as well as tangible actions of our banking members and our employees, for instance offering new sustainable products, reducing paper consumption thereby saving 866 trees or planting more than 6000 new trees throughout the region. We are proud that our efforts and our progress in the field of sustainability were confirmed by **our first ESG rating** – Sustainalytics rated NLB with an ESG Risk Rating of 17.7 and a low risk of experiencing material financial impacts from ESG factors.

In 2022, NLB Group's result after tax amounted to EUR 446.9 million, with the acquisition of N Banka in March significantly influencing the full-year business results of the Group. **Excluding the total contribution from N Banka, net profit grew by 11% and reached EUR 262.8 million.** We ended the year with a **strong capital position, as the total capital ratio of 19.2%** gives us confidence and optionalities to pursue future growth ambitions. We will continue to create added value for our shareholders, live up to expectations of our clients, employees, and the public, as well as seize all opportunities in front of us.

NLB Group

"While the past year has been extremely turbulent for Europe, it presented yet another opportunity for banks in NLB Group to prove their systemically important role in society," emphasized **NLB's CEO Blaž Brodnjak** as the unaudited 2022 results were published. He explained: "Following the uncertainties, challenges, and consequences brought on by the war in Ukraine, all our member banks have contributed their share to the stabilisation of the banking industry and regional economy. Later on, the Group's banks in various markets also stepped up in times of the instability of the energy sectors and by providing much-needed liquidity contributed to the successful mastering of this challenge, as well. All this came on top of the Group's regular business objectives of growth in all key segments. It is therefore not without pride that we emphasize: in 2022, NLB has generated the highest profit after tax in history of any Slovenia-based business."

The **Supervisory Board** is also pleased with the performance of NLB Group in the past year, with its **Chairman Primož Karpe** highlighting new opportunities for creating added value the Group addressed in 2022. "We estimate that, on the one hand, new opportunities for growth come from additional leveraging of synergies within the group on the back of an increased investments into digitalisation, and on the other hand by the expansion of certain activities. An example of the first is the NLB DigIT competence centre the Group established in Belgrade in order to keep and build on its digital leadership position in the region; and an example of the second is an expansion of leasing activities to two additional markets," he explained. "Such business decisions are made strategically and based on a strict adherence to the principles of risk and profitability, all with the aim of creating additional value for stakeholders," he added.

Key highlights of Q4 and the full year 2022

The successful fourth quarter of 2022 contributed to the strong finish of the record business year. **NLB Group achieved EUR 798.5 million in total net operating income (up EUR 131.6 million or 20% from previous year).** Total net operating income, excluding the EUR 35.6 million contribution from N Banka, grew by 14% in 2022. NLB Group achieved EUR 234.9 million in total net operating income in Q4, and growth of 14% versus the previous quarter. **The result before impairments and provisions in 2022 grew by 34% (29% organically), to reach EUR 338.3 million**, of which N Banka contributed EUR 12.7 million. The result after tax was, with EUR 446.9 million, the highest in the history of NLB – with negative goodwill coming from the N Banka acquisition adding EUR 172.8 million. Excluding the total contribution from N Banka, net profit would grow by 11% to reach EUR 262.8 million.

The **net interest income (NII) in 2022 increased by 23% YoY (up by EUR 95.6 million) to reach EUR 504.9 million.** Growth in NII, excluding N Banka's contribution, totalled EUR 69.8 million YoY (up 17%) as a result of higher volumes, an increase of key ECB and reference interest rates, and very extensive new loan production. Wholesale funding (despite the decrease by EUR 713.0 million mainly due to TLTRO repayment of EUR 750 million) increased interest expenses by EUR 8.8 million in the second half of the year because of the issue of MREL-eligible Senior Preferred notes in the amount of EUR 300 million in July, and subordinated Tier 2 notes in the aggregate nominal amount of EUR 225 million in November. The total cost of funding remains low for now (0.32% on quarterly basis) due to a comfortably high and stable deposit base but is increasing on the account of MREL-related wholesale funding. In the fourth quarter, NLB Group recorded EUR 151.8 million of NII, a growth of 20% QoQ.

The **net non-interest income (NNII) reached EUR 293.6 million in 2022**, of which EUR 9.9 million were contributed by N Banka. The growth of NNII of 14% (10% without N Banka) was mainly a function of net fee and commission income growth on all markets of operation. No major one-off net non-interest income items were recorded in the current year, just various smaller, mostly in the fourth quarter in a total amount of EUR 19.5 million (e.g., volatility of financial markets, exchange rate differences, and the valuation of real estates).

The full-year **net fee and commission income of EUR 273.4 million (growth of 15% and 12% excluding N Banka**'s contribution), was predominantly a function of the strong results in payment transactions and related services, income from investment funds, and bancassurance products. The dynamics of net fee and commission income in the last quarter of the year was slightly subdued due to cancellation of high balance deposit fees in August and reached EUR 69.2 million, down from EUR 70.5 million in the third quarter.

Total costs amounted to EUR 460.3 million, of which EUR 22.8 million were from N Banka. Without N Banka's contribution, total costs increased YoY by 5% with other general and administrative expenses (such as electricity, and some nonrecurring expenses, such as software maintenance costs, marketing costs for the acquisition of N Banka and the merger of NLB Beograd and Komercijalna Banka, Beograd) recording the highest relative increase. The employee costs increase of 11% remain contained, despite the Q4 seasonality.

The net impairments and provisions for credit risk in 2022 were established in the amount of EUR 17.5 million, out of which EUR 8.9 million was for expected credit losses for the performing portfolio of N Banka at the acquisition date. As a result of less favourable macroeconomic forecasts and the deterioration of risk parameters, NLB Group established EUR 25.0 million in net impairments and provisions for credit risk in the last quarter. Repayment of the written-off receivables remained an important contributor to low net impairments and provisions for credit risk throughout the year, with EUR 33.3 million of releases for the full year 2022 (and EUR 5.3 million in Q4).

The **cost of risk remained at a relatively low level of 14 bps**, although higher than in previous quarters as increased the uncertainty and changes in expectations of macroeconomic development affected forecasts for some NLB Group members' economies.

Other impairments and provisions were established in the amount of EUR 11.4 million (and EUR 6.3 million in the last quarter), of which EUR 4.6 million was for reorganisation in NLB Komercijalna Banka, Beograd in the first half of the year, and EUR 5.7 million for reorganisation in N Banka in Q4.

in EUR millions/%

	1-12 2022	1-12 2021	Change YoY	Q4 2022	Q3 2022	Q4 2021	Change QoQ
Key Income Statement Data							
Net operating income	**798.5**	**666.9**	**20%**	**234.9**	**205.6**	**167.0**	**14%**
Net interest income	504.9	409.4	23%	151.8	126.7	107.0	20%
Net non-interest income	293.6	257.6	14%	83.0	78.9	60.0	5%
o/w Net fee and commission income	*273.4*	*237.2*	*15%*	*69.2*	*70.5*	*64.6*	*-2%*
Total costs	-460.3	-415.4	-11%	-127.7	-113.9	-118.2	-12%
Result before impairments and provisions	**338.3**	**251.5**	**34%**	**107.2**	**91.7**	**48.8**	**17%**
Impairments and provisions	-28.9	8.8	-	-31.2	10.0	-16.5	-
Impairments and provisions for credit risk	*-17.5*	*35.8*	-	*-25.0*	*9.8*	*1.8*	-
Other impairments and provisions	*-11.4*	*-27.1*	*58%*	*-6.3*	*0.2*	*-18.3*	-
Negative goodwill	172.9	0.0	-	0.1	0.0	0.0	-
Result after tax	446.9	236.4	89%	69.1	90.8	30.9	-24%

The Group's **gross loans to customers increased by EUR 2,493.9 million (23%) in 2022**, with a EUR 953.7 million increase due to the acquisition of N Banka. Without N Banka, a EUR 1,540.2 million growth (14%) in gross loans to customers was recorded. Strong growth was well distributed between segments of customers, with the gross corporate loan growth of 27% (to reach EUR 6,345.7 million) and growth of gross loans to individuals of 20% (to end the year at EUR 6,743.4 million).

NLB Group has for the first time in its history collected more than EUR 20 billion in deposits from customers, a growth of 14% (without N Banka 8%). The corporate deposit growth of 25% (15% organically) outpaced the growth in deposits from individuals (10% with N Banka and 7% organically). Such a favourable trend in the main funding source for the banking group at the time of increased uncertainty and inflation denting household disposable incomes showcases clients' trust in NLB Group. A strong deposit base translates to the relatively low average funding cost for NLB Group, and at the same time provides much needed flexibility for achieving business targets. The **deposit base of the Group in 2022 increased**

by EUR 2,386.9 million, of which EUR 898.5 million was due to the acquisition of N Banka. The **LTD ratio (net)** at the Group level was **65.3%**, a 5.3 p.p. increase in 2022.

As at 31 December 2022, the **TCR for the Group stood at 19.2% (or 1.4 p.p. increase YoY)**, and the **CET1 ratio stood at 15.1% (0.4 p.p. YoY decrease**). The higher total capital adequacy derives from the higher capital (EUR 553.9 YoY), which compensated the increase of the RWA (EUR 1,985.7 million YoY). The Group increased the capital with the inclusion of negative goodwill from the acquisition of N Banka in retained earnings (EUR 172.8 million), a partial inclusion of 2022 profit (EUR 161.5 million), Additional Tier 1 notes issued in September (EUR 82 million), and subordinated Tier 2 notes issued in November (EUR 222.9 million). In accordance with the CRR 'Quick fix' from June 2020, temporary treatment of FVOCI for sovereign securities was implemented by the Group in September 2022, which increased the capital by EUR 61.6 million (i.e., accumulated other comprehensive income amounted to EUR -98.5 million instead of EUR -160.1 million). The 'Quick fix' measure ceased to apply as at 1 January 2023.

Year-end capital does not include a part of the 2022 result in the amount of **EUR 110 million** – which is envisaged to be **paid as the dividend in 2023**. The bank delivered on its guidance to pay out EUR 100 million dividends in 2022 and reaffirms its ambition to return to shareholders a combined EUR 500 million in dividends between the years 2022 and 2025.

The Bank expects to be **active on debt capital markets in 2023** by issuing approximately EUR 300 million of new senior MREL-eligible notes. This will lead to the Bank comfortably meeting the binding MREL requirement, applicable as at 1 January 2024.

in EUR millions/%/bps

	31 Dec 22	30 Sept 22	31 Dec 21	Change YoY	Change QoQ
Key Financial Position Statement Data					
Total assets	**24,160.2**	**23,497.8**	**21,577.5**	**12%**	**3%**
Gross loans to customers	13,397.3	13,244.0	10,903.5	23%	1%
Net loans to customers	13,073.0	12,925.3	10,587.1	23%	1%
Deposits from customers	20,027.7	19,573.1	17,640.8	14%	2%
Equity (without non-controlling interests)	2,365.6	2,339.8	2,078.7	14%	1%
Other Key Financial Indicators					
LTD	65.3%	66.0	60.0%	5.3 p.p.	-0.7 p.p.
Total capital ratio	19.2%	16.6%	17.8%	1.4 p.p.	2.6 p.p.
Common Equity Tier 1 Ratio	15.1%	14.5%	15.5%	-0.4 p.p.	0.6 p.p.
Total risk exposure amount (RWA)	14,653.1	14,283.7	12,667.4	16%	3%
Employees					
Number of employees	8,228	8,265	8,185	43	-37

The annual **net interest margin** of the Group was **2.30%** (0.23 p.p. increase YoY), while quarterly interest margin in Q4 of 2.65% (0.38 p.p. increase QoQ), due to the net interest income growth. The annual **operational business margin** grew from 3.28% by 0.29 p.p. YoY, **reaching 3.57%,** due to net interest income and net fee and commission income growth. The quarterly increase of operational business margin was solely due to the net interest income growth and **reached 3.87% in Q4.**

in EUR millions/%/bps			
Key Financial Indicators	**1-12 2022**	**1-12 2021**	**Change YoY**
Return on equity after tax (ROE a.t.)	12.2%	11.4%	0.8 p.p.
Return on equity after tax w/o NGW	19.9%	11.4%	8.5 p.p.
Return on assets after tax (ROA a.t.)	1.2%	1.1%	0.0 p.p.
Return on assets after tax w/o NGW	1.9%	1.1%	0.8 p.p.
Net interest margin (on interest bearing assets)	2.30%	2.07%	0.23 p.p.
Operational business margin	3.57%	3.28%	0.29 p.p.
Cost to income ratio (CIR)	57.6%	62.3%	-4.6 p.p.
Cost of risk net (bps)	14	-41	55

Outlook[1]

A warmer-than-expected winter, energy savings, and fiscal support measures helped to alleviate fears of imminent energy shortages in the euro area. Production levels should benefit from the improving supply conditions, while energy and commodities markets are expected not to experience any additional supply shocks. The inflation rate should decrease, but remain elevated, due to the combined effects of higher interest rates, tighter financial conditions, and alleviated inflationary pressures stemming from commodities prices. Private consumption is to remain subdued in 2023 due to declining purchasing power, as core inflation will become the predominant inflation driver. The muted private consumption and uncertainty stemming from continued although regionally contained political tensions, are expected to be the main drag on economic growth. Labour market tightness should slightly decrease due to stagnating economy which is expected to result in smaller pressure on wage growth, and consequently fewer second round effects driving inflation. Overall, we see the euro area economy stagnating in 2023, while the Group's region economies are expected to grow 1.3% on average in 2023. Since tourism rebounded in 2022, 2023 could be beneficial to the tourism-dependent countries. Current accounts are mostly set to deteriorate in 2023. Growth should start picking up towards the end of the year. A reduction in inflation should happen in the second half of the year, providing some relief to real income and household consumption.

The Group is pursuing a range of strategic activities to enhance its business performance. The interest rate outlook is uncertain given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment. The Bank is committed to delivering sound financial performance.

Based on current and expected rates environment, growth outlook, strict costs control supported by IT/digital solutions, and successful implementation of the Group's strategy and initiatives, the 2023 outlook and guidance for 2025 have been revised and further improved. During the inaugural Investor Day which took place in May 2022, the Group has communicated several KPIs for the year 2025, i.e. regular profit to exceed EUR 300 million, EUR 100 million contribution from the Serbian market, EUR 500 million total capital return through cash dividends between 2022 and 2025, capacity for EUR 1.5 billion RWA tactical M&A, and ROE to exceed 12%. The Group remains committed to deliver on these KPIs, moreover, it is improving the outlook for regular profit (to be around EUR 400 million), contribution from the Serbian market (to exceed EUR 100 million), capacity for tactical M&A (to EUR 2 billion RWA), and ROE (to exceed 13%)

[1] The indicated outlook constitutes forward-looking statements which are subject to a number of risk factors and are not a guarantee of future financial performance.

KPI	Last Guidance for 2022	Actual 2022 Performance	Last Guidance for 2023	Revised Guidance for 2023	Last outlook for 2025	2025 Outlook
Regular income	~ EUR 750 million	EUR 779 million	> EUR 850 million	~ EUR 900 million		> EUR 1 billion
Costs	~ EUR 460 million	EUR 460 million	~ EUR 490 million	~ EUR 490 million		Flat on 2023 level or below
Cost of risk	Below 30 bps	14 bps	30-50 bps	30-50 bps		30-50 bps
Loan growth	Low double-digit organic growth(ii)	14% (23% with N Banka)	Mid single-digit loan growth	Mid single-digit loan growth		High single-digit loan growth
Dividend	EUR 100 million	EUR 100 million	EUR 110 million	EUR 110 million	EUR 500 million (2022-2025)	EUR 500 million (2022-2025)
ROE a.t.	~ 10% w/o NGW, (ROE normalized(i): 12% w/o NGW)	20% 12% w/o NGW (ROE normalized(i): 16% w/o NGW)	> 10%, (ROE normalized(i): > 12%)	~11%, (ROE normalized(i): ~14%)	>12%	> 13%, (ROE normalized(i): > 17%
Regular profit					> EUR 300 million	~ EUR 400 million
Contribution from the Serbian market					EUR 100 million	>EUR 100 million
M&A potential					Capacity for EUR 1.5 bn RWA tactical M&A	Capacity for EUR 2 bn RWA tactical M&A

(i) ROE normalized = Result a.t. w/o minority shareholder profit divided by consumed capital. Consumed capital computed as T1 requirement of average Risk Weighted Assets (RWA) reduced for minority shareholder capital contribution.
(ii) w/o N Banka.

Invitation to the webcast presentation

We kindly invite all interested stakeholders to the presentation of the NLB Group 2022 Unaudited Business Results. The webcast, hosted by the Management Board of NLB, will take place on Thursday, February 23, 2023, at 16:00 CET/15.00 GMT and will be available here: https://www.nlb.si/ir-events. We invite you to register upfront.

Members of the Management Board will, as usual, receive and address your questions live during the webcast, however, if you already know what you wish to ask them, you may submit your questions now. If you register for the event, you will be able to send them via web app, or you may simply send them to the email address IR@nlb.si.

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